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¶1. (U) SUMMARY: Nigeria's power sector was in transition and the World Bank was integrally involved in this process, according to World Bank (WB) Energy Specialist Waqar Haider. He identified three aspects to the transition: unbundling the Nigerian Electric Power Authority (NEPA); regulatory functions moving from the Federal Government (GON) to the independent Nigerian Electricity Regulatory Commission (NERC); and private investment in the domestic energy sector. The GON had "thrown a party but no one had come" to invest in the domestic energy sector. END SUMMARY.

¶2. (U) US Department of Energy (DOE) International Affairs Specialist Carolyn Gay met with World Bank Senior Energy Specialist Waqar Haider to discuss developments in Nigeria's domestic energy sector on July 16.

Unbundling in Progress But Problematic

¶3. (U) In 2005, the GON deregulated the Nigerian Electric Power Authority (NEPA), unbundling it into six private generation companies, eleven distribution companies all to be privatized, and one transmission monopoly to be state-owned but privately operated. The assets were put under the direction of the newly-created Power Holding Company of Nigeria (PHCN) to manage the transition process, leaving NEPA defunct. The unbundling process was partially complete, but Haider was skeptical whether the successor companies were prepared to operate as independent entities. The unbundling had been done according to geography to accommodate Nigeria's six geopolitical zones, and left successor companies with weak finances and huge systems that yielded scant revenue. Moreover, the GON-imposed electricity tariff structure left a huge gap between revenues and costs, leading to deferred investment in power infrastructure and subsequently to system degradation. This created a chicken-egg problem with respect to profits and investment.

¶4. (U) Haider complimented the GON's bold steps to deregulate the

power sector to attract private investment, but the process would not be complete as long as successor companies relied heavily on government subsidies for their financial viability. For these companies to remain solvent they would need government subsidies for the medium-term, however, there must be a trajectory to reduce subsidies over time, by moving to a cost-based electricity tariff. Haider estimated the budgetary burden might be more than $1 billion per year depending on the time horizon over which companies amortized investment projects.

Regulation Tied To Gas Pricing

¶5. (U) In 2005, the GON formed the Nigerian Electricity Regulatory Commission (NERC) to regulate power sector participation and competition, electricity pricing, operating and consumer standards, and power sector reform. Haider reported that NERC already had developed many rules and regulations including its Multi-Year Tariff Order (MYTO) framework, but one of NERC's key missions would be to depoliticize domestic power pricing to allow necessary electricity tariff increases. This would be a time consuming process requiring widespread public acceptance, towards which little had been done. To make tariff increases politically palatable, he advocated parallel tracks: increasing supplies through "better housekeeping" - spreading electricity load shedding more equally across the country, and allowing consumers to see the value of a future electricity tariff increase.

¶6. (U) Nigeria needed a comprehensive approach to the energy sector that precluded pricing different energy sources in isolation, given subsidized domestic gas consumption and reliance on importing refined product. Nigeria's gas supplies were inadequate to meet domestic power generation requirements and Nigeria could be forced to either cut power generation, which would hurt industrial production, or switch to more costly liquid fuels.

¶7. (U) The Nigerian electricity market was severely lopsided. High-cost diesel generators ($ 0.23-0.27 per kilowatt hour) are a primary electricity source for many customers because of Nigeria's unreliable and under priced grid-supplied power. As of July, 4,000 megawatts (MW) of Nigeria's 7,000 MW nameplate electricity generation was theoretically operational and only 2,500 to 2,700 MW was consistently available. The GON planned to increase power generation capacity to 10,000 MW by 2008, but adequate gas supplies remained an issue to meeting this target.

¶8. (SBU) Niger Delta security and below-market domestic gas pricing were two factors impeding the development of adequate and reliable gas supplies for power generation, as was the case with the Egbin power plant when vandals sabotaged the Escravos-Lagos Gas Pipeline in February 2006. While international oil companies (IOCs) were accustomed to working in difficult areas, they would be loath to honor commitments to develop Nigeria's gas resources without a gas pricing framework that provided adequate returns on gas infrastructure investment.

Where are the Private Investors?

¶9. (SBU) Nigeria encouraged private sector investment in Independent Power Plants (IPPs), but potential investors' concerns over receiving payment for privately generated electricity had held up investments in new plants and generation capacity. Payment concerns also had led private investors to demand GON revenue securitization to assuage their lenders. IPPs had made securitization proposals, but the GON had not yet decided on how to insure private investors against Nigerian government default. Gas policy issues held up the GON's divestment of government-owned power plants. The South Korean firm that purchased the Egbin power plant based its bid on a financial model predicated on NERC doubling the power tariff and the firm paid only 10 percent of its bid up-front. With the private sector shy to invest in Nigeria's power sector, the

Nigerian government was left to pick up the investment gap. In 2005, the GON committed $9.7 billion from Nigeria's excess crude fund for the National Integrated Power Project (NIPP), creating government-owned power generation and distribution assets it would then privatize to recoup their development costs. However, the NIPP has been racked with delays.

Refineries Lack Economies of Scale

¶10. (SBU) Nigeria's refineries were not performing largely because of vandalized feedstock pipelines and labor strikes. Haider attributed Nigeria's refining problems to public ignorance over market fuel pricing. Nigeria's refineries were small and could not compete on cost with large-scale refineries but served a strategic purpose for energy security and economized on transport costs to the far north. While Haider decried Nigeria's $1.5 to $1.8 billion annual federal fuel subsidy, he acknowledged the GON's inevitable role in subsidizing its intrinsically uneconomic refineries. While Nigeria's current refining picture was bleak, Haider believed that it could support a world-scale refinery given its ample crude supplies and become a key supplier of refined product for all of Africa.

WB Role

¶11. (SBU) The WB was integrally involved in advising the GON on various aspects of its energy sector. The WB was a transactions adviser on Nigeria's privatization activities, under the Privatization Support Project (PSP) with Nigeria's Bureau for Public Enterprises (BPE) for the sale of government-owned energy assets including the Egbin power plant. However, the GON did not keep the WB fully informed in the divesture process. The WB was helping Nigeria develop domestic power infrastructure and offered technical and managerial assistance. The Transmission Development Project (TDP) invested in grid network reinforcements, a National Load and Demand study, and extended the Supervisory Control and Data

Acquisition (SCADA) infrastructure to power plant dispatch stations to ensure optimal electricity transmission to market. The WB sponsored the National Energy Development Project (NEDP), which supported power sector reform and privatization. NEDP invested in expanding Nigeria's transmission and distribution network by building substations, small-scale high voltage transformers, high-voltage power lines, and metering capacity, thereby increasing the reliability of electricity supply by decreasing electricity load shedding. NEDP provided technical assistance for public-private partnerships in the power sector. The WB was sponsoring renewable energy pilots in three Nigerian states involving biodiesel, solar energy, and micro-hydropower to boost rural electrification.

WB Assessment

¶12. (SBU) Haider was critical of Nigeria's "catastrophic investment picture" and believed this would continue until the GON put its house in order. The GON did not have the capacity to efficiently develop energy assets on its own, and its primary duty was to set policies. Nigeria needed to attract foreign companies with the technical, managerial, and financial muscle to develop the domestic energy sector. Haider advocated loosening the policy framework and offering a generous fiscal regime to balance Nigeria's high cost of doing business.

¶13. (SBU) Haider was hopeful, however, that the WB would have fruitful discussions with the GON later this year regarding Nigeria's domestic energy policy and believed a coherent energy pricing framework would have a positive impact on the power sector. The GON had shown interest in meeting with stakeholders and this could be a way for Nigeria to break the impasse with private investors over power sector development. The WB would like to

partner with international development agencies and foreign governments, including USAID to build local Nigerian capacity through technical assistance, and pilot and demonstration programs. Carolyn Gay expressed DOE's interest in supporting energy development projects in Nigeria and agreed to discuss with DOE officials the possibility of partnering with the WB on upcoming projects.

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